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## Pushed or pulled? Transfer of reward management policies in MNCs

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This paper investigates the transfer of reward management policies using case studies of American multinationals operating in Turkey. Extensive evidence suggests smooth transfer of a similar set of sophisticated home-grown corporate policies to a developing European ‘periphery’ country. Strong ‘pull’ and ‘dominance’ effects as a result of the willingness of Turkish companies and managers to ‘import’ most recent developments in human resource management (HRM) from the US operating within the permissive business system are found as the most significant explanatory factors.

**Keywords:** multinationals; policy transfer; pull and dominance effects; Turkey

### Introduction

This paper aims to examine the degree of, and factors influencing, policy transfer by multinational corporations (MNCs) across borders. The questions addressed are, first, to what extent prevailing policies developed in the country of origin are transferred to the host country institutional environment, and second what are the factors that are most influential on the actual transfer. These questions are attempted through a qualitative study of the reward management policies of MNCs from a ‘dominant’ home-country (i.e., the USA) transferred to a European ‘periphery’ host-country (i.e., Turkey). It is argued that MNCs in general engage in the straightforward transfer of their ‘home-grown’ policies and practices for a variety of reasons. Among the most significant ones (particularly for reward management) are firstly, that these policies are valuable resources that companies would seek to copy and use throughout the organisation (Zaheer 1995; Szulanski 1996), and secondly, their consistent transfer will contribute to equity enhancement within the corporation and its external legitimacy (Kostova and Zaheer 1999). American MNCs more specifically are argued to be inclined to a significant degree to take and apply their own, nationally idiosyncratic, human resource management (HRM) policies across borders (e.g., Ferner 2000).

Reward management policies by US subsidiaries are of particular interest as American companies are renowned to be ‘innovative’ in their management of pay, and first to develop many forms of reward management within their relatively unregulated home business environment where individualistic work values prevail (Almond, Muller-Camen, Collings and Quintanilla 2006; Gooderham, Nordhaug and Ringdal 2006). A range of pay policies, e.g., Ford’s ‘efficiency wage’, gain- and profit-sharing, ‘broadbanding’, etc. originally developed in the USA have spread to and received interest in other developed economies. Moreover, US firms are in general found to have highly centralised and

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formalised policies in their subsidiaries, pursuing a 'one world, one strategy' approach (Björkman and Furu 2000; Bloom, Milkovich and Mitra 2003; Almond et al. 2006). From early (e.g., Flanders 1964) to more recent examples (e.g., Almond et al. 2006), US MNCs are found to challenge the host-country employment systems particularly by the introduction of pay for performance. There is also some evidence for US MNCs having to adapt certain elements of their reward management policies in some host environments (e.g., Shire 1994; Almond et al. 2006) as a result of the nature of specific sectoral or occupational labour markets, unionisation, and the limiting power of collective bargaining in the subsidiaries. Nevertheless Almond et al. (2006) contend that US MNCs had a strong determination to overcome host country effects particularly in pay for performance, hence apply highly centralised pay for performance policies very strongly in their European subsidiaries.

The literature increasingly recognises the need for and appropriateness of research on the transfer of management knowledge and policies in different parts of the world. However it has so far focused heavily on the 'Triad', i.e., the US, EU countries and Japan, which are the most developed economies and have the largest share of foreign direct investment (FDI) inflows and outflows. Although there is recently more interest towards China, India and a few other developing countries, the 'periphery' does not yet receive a meaningful portion of such research. As suggested by Kipping, Engwall and Üsdiken (2008), 'periphery' countries might offer significant additional insight towards understanding the differences in the extent and outcome of knowledge transfer from these in the 'central' countries where most (if not all) theory and observations come from. Particularly some developing countries with the continuous and significant change experienced in their social and economic institutional systems as a result of external and internal factors (e.g., those in the European 'periphery' that are joining or aspiring to join the EU) offer an unexplored ground that will improve our understanding of the transfer process between significantly different business systems.

In addition to the 'scope', i.e., the countries studied, it is also necessary to recognise differences in the 'roles' played in the transfer process, as different 'roles' might have significant influences on the outcome of the transfer. A critical majority of studies in this line of research identifies the USA as the 'dominant' exporter of management knowledge and practice, implicitly (or explicitly) presuming that the 'importer' is aloof. Accordingly it is also assumed that the host-country environment presents constraints or challenges for the transfer of home-grown HRM policies or in some cases total rejection. The abundant literature as a result conceptualises policy transfer as adaptation, translation or hybridisation in response to institutional (or cultural, for this purpose) differences between the host- and home-country and an accompanied unwillingness and constraining environment on the receiving end. However the role of 'active' importers needs to be emphasised more, as pointed out by a few studies on the transfer of both Japanese and US management models (e.g., Bjarnar and Kipping 1998).

This paper attempts to extend the current literature on the process of policy transfer across countries by MNCs through qualitative case studies of US subsidiaries in Turkey by investigating home-country influences, particularly in terms of 'dominance' effects, and host-country influences of a 'periphery' country. Reward policies are chosen mainly because they fare among the most centralised and standardised HRM policies of American MNCs and are intended for straightforward transfer to the subsidiaries. This paper is organised as follows: relevant literature is reviewed and the theoretical background is presented in the next section. Then a summary of Turkish context for reward management is presented. This is followed by the methodology section, where the research methods,

case companies and data collection are explained. The findings from the case studies are then presented. The last section comprises the discussion of how theoretically significant factors influence the transfer of reward management policies and concluding remarks.

### **Theoretical background: understanding transfer in MNCs**

The last two decades have witnessed a growth in the number of studies in international management that apply institutional theory to the study of MNEs (Dacin, Goodstein and Scott 2002). Among the leading approaches within the comparative institutionalism are 'national business systems' by Whitley (1999), the 'societal effects' by the Aix school (e.g., Maurice, Sorge and Warner 1980), the 'social systems of production' by Hollingsworth and Boyer (1997), and the 'varieties of capitalism' by Hall and Soskice (2001). Despite differences in some dimensions, these approaches provide an established framework for comparatively studying firm behaviour in different national settings, focusing on the influence of macro-level social institutions (i.e., political, legal and societal frameworks at the nation-state level) on company behaviour. In general, comparative institutionalism claims that national institutional factors are the most significant determinants of organisational characteristics and management behaviour (Kostova, Roth and Dacin 2008). The emphasis rests on two main points: first, the significance of the historical and path-dependent nature of key national institutions and their development (Mahoney 2003) and second, the 'embeddedness' of firms in their own national institutional environment, focusing on the significance of the interaction effects and 'institutional complementarities' in shaping firm behaviour, market organisation and market-hierarchy relations in a given national business system (Deeg and Jackson 2007).

The comparative institutionalism is generally criticised for, first, overemphasising the robustness of national institutional systems and not considering mechanisms for continuous change, and second, predominantly focusing on macro-level national institutions, neglecting the meso and micro (i.e., sectoral and organisational, respectively) levels of analysis and their influences on firm behaviour (Ferner, Quintanilla and Sanchez-Runde 2006). The first issue is particularly significant for 'periphery' countries, where such change can be more readily observed. An alternative approach that combines the elements of comparative institutionalism and globalisation is proposed by Djelic and Quack (2003). While arguing for the variability of national frameworks stemming from their own historical development processes, their model provides space for the influences of globalisation as an incremental but consequential change process on the national institutional systems. Similar to the other comparative approaches, Djelic and Quack's (2003) arguments are based on the notion of 'embeddedness' of economic activity within the larger institutional framework, while it is not only the national but also the *transnational* institutions and their influences integrated to the model. The essence of their approach is that change in national institutional systems occurs over a long period through a succession of individually insignificant-looking transformations of institutional elements, i.e., 'trickle-down' and 'trickle-up' trajectories. The former refers to the impact from transnational to national directly, and/or indirectly, through sub-societal actors. A significant example of direct trickle-down trajectories is the pressure exercised by the EU or other transnational institutions (e.g., IMF, World Bank, WTO) on national governments to amend national laws or to develop new ones. Trickle-up trajectories on the other hand occur when new rules are pushed from below to change national institutional frames by major sub-societal actors, e.g., MNCs and international consulting firms. Djelic and Quack's model (2003) emphasises 'foreign' actors more than local ones, as a result

of its focus on the influences of globalisation and transnational organisations. However local actors, e.g., trade unions, non-governmental organisations (NGOs), business associations, might also play significant roles in 'pushing' new organisational forms or practices from below especially in the developing countries.

Globalisation defined as an influential change process is incorporated into the institutionalist approach by Djelic and Quack (2003), compensating for the generally ignored aspect of change in the comparative institutionalism. A similar macro-level influential process finds its roots in the power relations between countries (Smith and Meiksins 1995; Kostova 1999; Elger and Smith 2006). Smith and Meiksins (1995) conceptualise 'dominance effects' as the transfer of 'best practices' in methods of organising work, division of labour, etc. by the 'dominant' economies/societies. They argue that the interaction of society (institutional and cultural) and systems effects needs to be considered together with the dominance effects particularly for examining 'factory régimes' (i.e., management and labour process organisation at the firm level) (Smith and Meiksins 1995, p. 261). It is proposed that the extent and direction of borrowing 'best practices' depends on a number of antecedents: (i) the relative positions of the 'transferor' and 'transferee' in the global economic system; (ii) the nature of the solution 'best practices' provide for problems; (iii) the timing of the transfer, which influences the relative openness or receptiveness of the 'transferee'; and (iv) differences between the exposure of social agents at the firm level to the pressures for the transfer of 'best practices' (Smith and Meiksins 1995, p. 261–3). The 'dominance effects' argument as such is different from those of the earlier convergence theorists (e.g., Kerr, Dunlop, Harbison and Myers 1960) or the more recent globalisation enthusiasts (e.g., Ohmae 1990) in that firstly, no claim is made for an indiscriminate transfer of 'best practices' from a 'dominant' country to the rest of the world; and secondly, the role of social agents at the firm level is also considered as a significant influential factor.

On a similar accent, it is argued that the relational ties between the sender and receiver countries are among the important factors that define the process and outcome of the transfer (Üsdiken 2004). The relative dependence of one country on another economically and/or politically might be instrumental in facilitating the transfer (e.g., Arias and Guillén 1998). The economic and political involvement of the sender country, in terms of e.g., funding arrangements, developmental help organisations, training and educating home-country nationals, is also claimed to be one of the most significant factors. The historical economic and developmental backwardness of the receiver country, coupled with a 'developmentalist' discourse, can create a traditional openness to transfer and emulation of knowledge and practices (cf. Üsdiken 2004). Such a national enthusiasm for importing from abroad is conceptualised as 'active importing' by Bjarnar and Kipping (1998). In the cases of 'active' importers, the combination of macro-level influences, such as strong support from the governments in the exporting 'centre' and/or the importing 'periphery', might result in transferred and adopted, rather than adapted or translated, management knowledge or policy (Kipping et al. 2008).

Lastly, 'dominance effects' can be experienced at the firm level in either way: while it is generally presumed that 'best practices' are pushed by companies from dominant home-countries, particularly in the 'active' importer countries, it might be equally plausible that subsidiaries and managers in the 'periphery' are eager to transfer and apply them, resulting in strong 'pull' effects (Meardi and Tóth 2006). Kipping et al. (2008, p. 11) argue that 'best practices' might be 'pulled' to the 'periphery' with a less critical or unquestioning attitude if they are 'packaged' into 'developmentalist-cum-modernising orientations'. Üsdiken (2004) for instance demonstrates that a certain management knowledge or idea might be

adopted and even promoted unquestioningly at the 'periphery' when it is perceived as the most modern and functionalist developed at the 'centre'.

The last two decades witnessed the growth of (particularly qualitative) research on the transfer of management practices across the borders through the operations of MNCs adopting the institutionalist theory (e.g., Ferner 1997; Gooderham, Nordhaug and Ringdal, 1998, 1999, 2006; Ferner and Quintanilla 2002; Kostova and Roth 2002; Almond, Collings, Edwards and Ferner 2006; Almond and Ferner 2006; Tempel et al. 2006; Edwards, Colling and Ferner 2007; Pudelko and Harzing 2007, etc.). While these studies invariably argue that this line of research needs to be extended to include other, 'periphery' countries, the number of such studies has not yet reached a critical mass. In a recent attempt Kipping et al. (2008) put together a series of papers on the transfer of management knowledge to five periphery countries, i.e., Turkey, Israel, India, China and Australia, however none of these studies undertake MNCs or their HRM practices on board. There are also a few studies from the European periphery (e.g., Myloni, Harzing and Mirza 2007; Meardi, Edwards, Ferner, Muller-Camen and Wächter 2009) while their contribution to redress the unbalance is still marginal. This paper therefore aims to contribute to the literature with its analysis of policy transfer in MNCs from a 'dominant' country to their subsidiaries in a 'periphery' country. Focusing on reward management policies, one of the most centralised and standardised policies of American MNCs, it intends to investigate the macro level (host- and home country, and dominance) influences on policy transfer. The main research questions attempted are:

- (1) To what extent do American MNCs transfer their home-grown reward management policies to Turkey, a 'periphery' host country?
- (2) Which factors influence this transfer, either positively or negatively?

These questions are addressed through the case studies of seven US MNCs operating in Turkey. Before discussing the methodology in detail, the host-country context, in terms of Turkish and American relations and reward management in Turkey, will be presented in the next section.

### **The context: Turkey and reward management**

Economic, political and military relations between Turkey and the USA started to grow from the beginning of the 1950s, which coincided with the strengthening willingness on the US side to penetrate foreign markets and a pro-business and liberal government in Turkey. Turkey took its share from the post-war relief, Marshall Plan, and Mutual Security Act arrangements, in addition to know-how and education to restructure and reform its state and industry (cf. Üsdiken 2004). Üsdiken (2004, p. 258) argues that:

The well-established tradition since the late eighteenth century of emulating the West (perceived as Europe until then) with the hope of contributing to socio-economic development was again strongly there, though now orientated towards the US as the major source of learning and assistance.

As such Turkey presents an example of an 'active importer' (Bjarnar and Kipping 1998): a receiver country considerably underdeveloped, with a strong tradition of transferring knowledge and practices from abroad, and whose relational ties with the sender country depict multilateral dependence (Üsdiken 2004). Similarly, Üsdiken and Wasti (2002) and Üsdiken, Selekler and Çetin (1998) define Turkey as a 'receptive' country of management ideas (in particular Personnel and HR) originating from the US. Moreover, strong American influence, and 'a wholesale transfer and unabated absorption'



at the ideational level accompanied with, albeit a somewhat slower, structural penetration in the management education is evidently found by Üsdiken (2004, p. 267). Erçek (2006, p. 666) argues that the fast application of a HRM label and ideas in Turkey could be explained by 'an instituted habit of emulating Western practices and ... concurrent dissemination and successful of adoption of TQM ideas'.

HRM in Turkey is rather recent, starting in the early 1990s in large and established companies (Erçek 2006). Erçek (2006) argues that ownership and capital structures, i.e., international joint ventures (IJVs) with foreign partners and affiliation with the leading holdings, and the industry structure, where there is a large proportion of foreign direct investment, are the most significant factors that explain the strategic and quick adoption of HRM in Turkey. Accordingly, performance management systems, including performance-related pay (PRP) and performance evaluation (PE), are fairly recent in Turkey. There is still no PRP or PE in the public sector, except some primitive tools used in e.g., health services to distribute bonuses to staff from a pool of earned income. In general, the white-collar and professional workforce in the public sector receives seniority-based, automatic promotions and salaries linked to positions and job grades. Annual pay rises are decided by the government at the beginning of each year and the same rate is given to everyone, sometimes with exceptions for a certain group e.g., judges or academic staff. Unionised blue-collar workers in the public sector are covered by industry-wide collective bargaining.

In the private sector, performance related reward systems particularly for managerial and white-collar employees have been developed more recently in response to increased competition both domestically and internationally. A survey by Arthur Andersen among private (mostly large) companies from various sectors in 2000 and the Cranet survey (Caspi et al. 2004) showed that in nearly half of the respondent companies a certain percentage of pay rise was decided in relation to performance. However these increases have generally been perceived as 'negligible' until recently, given the periods of high inflation in Turkey: inflation ran at an average of 65% p.a. between 1980–2001, with a peak at 124% in 1994 and the 'lowest' at 22% in 1982. The following comment, which was fairly standard across the cases during the initial stages of fieldwork that which coincided with one of the worst economic crises in the Turkish history, shows how drastically different it was for non-Turkish managers at the corporate levels to understand the host context:

Our American parents don't understand us; we always had a hard time trying to explain them about pay rises to cover too high inflation. They find it very difficult to comprehend why we have to make a second, mid-year pay adjustment, to cover the losses in real wages because of high inflation. (HR Manager, FMCG2)

With the considerably reduced inflation rate, to around 10% in 2009, performance-related pay rises have started to be perceived as more 'meaningful'. Until recently, PRP in Turkey more generally meant premiums and bonuses especially for senior managers and sales personnel.

Although Turkey is classified among the 'collectivistic' nations by culturalist studies (e.g., Hofstede 1980), linking pay to performance is not reported to create any problems in terms of loss of face or competition among the group. While evidence was not formally collected in this study, brief informal encounters with lower level managers, as employees themselves, and with a few white-collar employees, revealed that employees find it necessary to 'distinguish between good [performance] and bad [performance]'<sup>1</sup> and would like to see that their good/better performance makes a difference. Especially among the

younger generation, individualism in the upper socio-economic status groups in urban areas is found to be increasing (Kağıtçıbaşı 1996; İmamoğlu and Karakitapoğlu-Aygün 2004). Managerial and white-collar employees of large, especially American and other foreign capital, companies mostly come from this group. This more 'individualistic' inclination helps make PRP more desirable, hence easier to establish in Turkey in organisations such as US MNCs where 'competition' is usually a part of the organisational culture.

As far as the legislative environment is concerned, there are no restrictions on the choice of remuneration systems (wages, salaries, bonuses or awards) for any companies in Turkey, including foreign ones. There are a few significant issues that affect the cost of labour and compensation and benefits practices in *all* companies in Turkey, namely, the obligatory national social security through the Social Security Institution (SGK) and minimum wage requirements. Firstly, it is legally required to 'register' all employees with SGK, although so-called 'illegal', i.e., unregistered, employment is widespread among SMEs and can be found even in large firms. While the social security premiums increase the cost of labour for employers by around 19% of the gross salary/wages, unregistered workers are not entitled to any health and retirement benefits, and cannot claim redundancy payments. 'Illegal' employment prevails in Turkey mainly because the law is not strictly enforced, as the government turns a blind eye to this situation, in order not to increase the already high rates of unemployment.

The widespread problem of illegal employment practices without any health and retirement benefits is one side of the story in Turkey. On the other side of the coin, retirement benefits provided through SGK are not highly regarded because pensions are very low, and insufficient to maintain similar living standards to those attained while in active employment. Health services are not highly regarded either: state hospitals are too crowded, with long queues and waiting lists, where quality is highly questionable. Consequently, large firms that want to attract and retain a highly qualified workforce have started to provide wide-coverage private health and life insurance plans for employees and generally their families. Additional life and accident insurances are provided according to the position, i.e., for executive management and sales. These insurance plans had become common benefits provided by the large corporations where they are considered as important tools for attracting and retaining good employees. Most recently, private retirement plans have started to be considered in the benefits package, where companies contribute to the individual retirement plans, after the system started in 2004.

The second issue that influences the cost of labour is the minimum wage, which is set by the responsible commission at the beginning of every year. This is the minimum monthly pay that all firms have to pay to their registered employees. It is usually paid to those workers at the lowest skill and educational level, usually in non-unionised firms and SMEs.<sup>2</sup> The minimum wage is significant as the relatively lower cost of labour is among the major incentives for FDI inflow. However better compensation is found to be the norm among foreign-capital firms, which paid more than twice as much as the average of national firms in the 1990s.<sup>3</sup> Nichols and Sugur (2004) explain this by the large size of the foreign-capital firms in the Turkish business context, they claim that the large corporate sector in Turkey in general provides much better reward packages than the SME sector (pp. 32–33). While this can be one explanation, another related reason is argued to be a scarce labour supply with the required qualifications, and increased job hopping and poaching of highly qualified employees. Appealing reward packages might have been used either to attract and retain more highly qualified employees especially because of industrial needs. Even paying above the average market rates, these companies still had



much cheaper labour costs than those in alternative, high labour cost countries, for instance when the Turkish plants were a part of the regional supply chain within the European countries.

### Methodology

This paper draws on the data collected for a larger project (Sayim 2008). The research was conducted at MNCs from a (if not the) dominant home-country, the US, operating in a developing European 'periphery' host-country, Turkey, which has been experiencing 'stalactite change' in its institutional system as a result of internal and external factors particularly since the 1980s. In-depth qualitative case studies of seven US MNCs operating in different sectors were developed (Table 1).

Multiple cases were developed in order to increase the possibility of replication of findings, thus improving the generalisability of the case study (Eisenhardt 1989; Yin 1994). Case companies were selected using 'hypothetical sampling' (Miles and Huberman 1994) or 'criterion-based sampling' (LeCompte and Preissle 1993, p. 63), not 'statistical sampling'. That is, analytically significant criteria determined the choice of cases from among those American companies operating in Turkey, which would ensure that analytical (as opposed to *statistical*) generalisations could be drawn. As such, firstly, companies that involved the substantive HRM areas and issues were included by controlling for size and age. Relatively large and established US subsidiaries in the Turkish market were selected where formal HRM policy and systems were expected to be in place. Secondly, cases from various sectors were chosen to have a proportionately representative case sample of the American FDI in Turkey. As such, key industrial dimensions used to determine the sectors were significance of the sector for Turkey, in terms of size of employment, amount of exports, de-regulation, as well as the share of total and American FDI in the particular sector. Priority was given to access the key players within these sectors. Thirdly, sample design was based on other analytically significant criteria at the micro level of analysis. In this respect, both wholly-owned subsidiaries (WOS) and IJVs as well as brownfield and greenfield investments were selected to account for ownership effects and mode of entry, respectively.

Main data for the case studies was collected by semi-structured in-depth interviews at subsidiary and regional headquarters in order to understand the complex causal relationships and the processes through which reward systems are developed and transferred within MNCs. Seventy-nine interviews were conducted with various actors at both subsidiaries and headquarters (Table 2).

As such, interviewees comprised HR specialists, managers, directors and co-ordinators, functional and general managers, expatriates, (regional/corporate) HR directors, and union officers. By bringing views of related actors and institutions and their interaction into the picture, the research aims to achieve the 'multi-perspectival' nature of case study research (Snow and Anderson 1991, p. 154). Interviews at the regional/corporate headquarters were especially important to triangulate data collected at the subsidiaries. Moreover, corporate perspectives of Turkish partners in the case of IJVs were investigated through interviews with HR co-ordinators. Finally, where possible, previous HR executives were interviewed in the cases where a historical view particularly about initial establishment of policies had complementary value.

The initial fieldwork guide, which included a detailed list of issues in HRM to be covered, had been revised as interviews progressed and specific issues arose, to uncover the particularities of companies and the host-country (see Appendix). Although the same

Table 1. Case study companies.

<i>Company</i>	<i>Line of Activity</i>	<i>Ownership structure</i>	<i>Mode of entry</i>	<i>Year of entry</i>	<i>Turkish Parent</i>	<i>US Parent</i>	<i>No of employees (Turkey)</i>	<i>No. of employees (Global)</i>
<b>AutoCO1</b>	Commercial vehicles and cars	IJV	Brownfield	1959/1997	Holding1	USAuto1	8008	201,000
<b>FMCG1</b>	FMCG (packaged food)	WOS	Brownfield	1988	n/a	USFMCG1	510	48,000
<b>FMCG2</b>	FMCG (tobacco products)	IJV	Greenfield	1990	Holding2	USFMCG2	1600	75,600
<b>PharmaCO1</b>	Pharmaceuticals (hospital care)	IJV	Brownfield	1994	Holding3	USHealth1	554	48,500
<b>TexCO</b>	Clothing/garment	IJV	Greenfield	1992	4 TR JVPs	USClothing	660	10,000
<b>FinCO</b>	Retail and corporate banking	WOS	Greenfield	1975	n/a	USFinance	2249	350,000
<b>HotelCO</b>	Hotel	WOS	Greenfield	1993	n/a	USHotel	260	80,000

Table 2. Distribution of interviews.

<i>Company</i>	<i>HR (Turkey)</i>	<i>HR (Regional headquarters)</i>	<i>Other top level managers (Turkey and regional headquarters)</i>	<i>Unions</i>	<i>Total</i>
AutoCO1	6	4	6	3	19
FMCG1	5	1	3	1	10
FMCG2	7		2	1	10
PharmaCO1	4	1	2	2	9
TexCO	5	3	6	3	17
FinCO	3	2	2	n/a	7
HotelCO	2	3	1	1	7
<b>TOTAL</b>	<b>32</b>	<b>14</b>	<b>22</b>	<b>11</b>	<b>79</b>

list of the topics that focus on the substantive issues of the research were completed with the HR managers at the subsidiaries and regional headquarters, emphasis changed from company to company. Except when the respondents explicitly preferred their interviews not to be taped when asked for their consent (four interviews), or the interviews with trade union representatives (11 interviews) where taping was not considered an option by the interviewees (probably due to their unpleasant experiences in the past), a vast majority (64 out of 79) interviews were taped and verbatim transcribed. Data collected through interviews (as well as documents and observation, though to a limited extent) were analysed using electronic tools, including specialised software, i.e., *QSR N6*.

### **Findings: reward management policies of American MNCs in Turkey**

Case study findings on the design and application of reward systems for managerial and white-collar employees reveal three major topics: first, salary structures, market positions, and corporate reward strategies; second, performance-related pay; and third, benefits policy and types of benefits provided in the Turkish local market.<sup>4</sup>

#### **Salary structures, position in the market and corporate reward strategies**

Following corporate policy and direction, all cases formed their salary structures locally based on job grading systems and current market rates. Without exception, the Hay job grading methodology, with certain adaptations to the company specific conditions, was used as a corporate application. Actual pay rates in these structures were formed by subsidiary management according to local market conditions, but they were closely and constantly controlled by regional and/or corporate US headquarters for application and changes. Similarly, Turkish corporate parents (Holding1 of AutoCO1 and Holding3 of PharmaCO1) exerted their policy by preparing salary structures for all of their affiliates that consisted of 'broad bands' for all job grades in various job families based on an 'overall earnings' concept that also included bonuses, premiums and benefits. Almost identical to the recent 'broadband' practice originating in the US, these salary bands were argued to be broad enough yet reflecting the corporate policy to fit all of their affiliates operating in a vast range of industries. Within these 'suggested' bands, which were in fact closely controlled by Holding HR Departments, IJV cases were given the flexibility to develop their own salary structures. At AutoCO1, for instance, a 'root salary' that was 'not dependent on status or function but decided according to job grades and market rates' was Holding1's corporate policy and used for the basic salary decisions. By looking at the candidate's qualifications they adjusted the starting salary accordingly at AutoCO1 at

the subsidiary level. Therefore these IJV cases were given relatively more flexibility by the Turkish parents than by the American parents in WOS and IJV cases.

Standard corporate policy in remuneration across cases can be summarised with the following fairly general comment: 'offering a locally competitive pay package to attract the best candidates in the market' (HR Director, FMCG1). It was therefore very important not only to design such a salary structure but also to keep up with the changes in the ongoing market rates and applications in rewards. Again without exception, all cases participated in salary surveys conducted regularly in the total market, specific industries, multinationals, large Turkish holdings and other competitor industries (e.g., FMCG for FinCO and TexCO) by international consulting companies, e.g., Hay, Mercer, Watson & Wyatt, Thomas Perrin.

When making annual salary increases, one of the most important inputs for adjustments therefore came from salary surveys and company networks about the current market rates. At FMCG1 and FMCG2, market 'surveillance' was done constantly in order to keep their competitive position. The following was typically stated by the senior managers at FMCG2:

We should not be competitive only in March when we increase salaries. We cannot simply make salary increases in March and keep them for a whole year without checking salary levels in the market. If we increase salaries in March and others make considerable adjustments in say July we might lose our competitiveness. So we constantly monitor salary levels in the market. (HR Director, FMCG1)

At FMCG1, they made their salary adjustments in March and September, so as to take into account the most recent increase in rates and salary positions in the market after most of the companies had made their adjustments in January and July. Not losing their competitive position in the market was especially important for 'frontline employees' at FMCG1 and the sales force at FMCG2, as 'our sales system and its backbone our sales force are our main competitive edge in Turkey' (Sales Director, FMCG2). Moreover, sales managers and staff were subject to poaching by competitors (Sayim 2008). As argued by Osterman (1987), confidently ensuring availability of a qualified labour supply at foreseeable prices is the most important goal for companies that choose the internal labour market (ILM) approach. Therefore the case companies' who have adopted ILM approaches (Sayim 2008) aimed their efforts towards achieving the general goal of securing a competitive position in the market which linked their salary and benefits structures and staying at that position to their preferred employment system in Turkey.

Within the general policy of 'competitiveness in the market', case companies had more specific policies in their salary positions in the market, transferred directly from the US corporate headquarters. For instance at FMCG1, they had different levels aimed in the market for different positions:

Our corporate policy is aiming to be at the median among all companies in the market for clerical positions/levels; at the multi-national median for junior management levels; and at the multi-national Q-3 for senior management levels. For blue-collar employees, we aim to be at least at the median of multinationals and the manufacturing companies in the same region where the plant is located. (HR Director, FMCG1)

Application of these market position policies was strictly enforced and closely controlled by regional and/or corporate headquarters HR. At FMCG2, the following explanation by the HR Manager was emphasised also by the other senior managers interviewed:

Our corporate policy in compensation is to be in third quartile from the bottom of the market wherever you go in the world, say in Poland, Switzerland or Israel. It is absolutely the same policy everywhere. This is definitive and you cannot for instance suggest that 'let us not work

apply the third quartile; we would rather like to pay say in the top 80% of the Turkish market'. You can of course suggest but it is not easy to convince them, as they say 'I apply this policy globally and they are successful policies. These policies work there [in the USA] so they will work here too'. As a matter of fact, we apply these policies as such and they do work. Why should not they work?<sup>5</sup>

Similarly at TexCO, corporate policy was to be generally at the median, and the third quartile of the local market for certain positions and key people they wanted to retain: 'this is the definitive global corporate policy and cannot be changed or even offered to be changed!' (HR Manager, TexCO). At FinCO, to reach their corporate policy of 'paying at the locally competitive rates to ensure that we can hire the best talent available in the market' (HR Manager, FinCO), they aimed for the second quartile from the top as well. All the interviewees at FinCO, including those at the regional headquarters, strongly emphasised that being locally competitive in their reward packages and related decisions – i.e., starting salaries, salary structure, annual increases, and keeping up-to-date by using survey data – was among their most important corporate policies, required to be followed strictly by the subsidiary, and controlled closely by regional and corporate headquarters. Only at HotelCO, both at the local subsidiary and regional headquarters levels, it was claimed that their corporate policy never aimed to be the top payer in the industry or 'to poach people with their salaries when opening a new hotel' (both HR Director and General Manager emphasised the same point). However at the regional headquarters, HR Director emphasised that they needed to be 'competitive in the market, therefore paying at the upper levels'. HotelCO was no exception in terms of meticulous adoption and use of the corporate policy and being subject to close control by the regional headquarters.

Turning to IJVs, AutoCO1 and PharmaCO1 had adopted similar corporate compensation policies transferred directly from their Turkish parents. For instance Holding1 corporate policy was defined as:

to design an overall earnings system that is determined according to current market rates, aiming to be competitive and fair within the market and the individual affiliate company, considering responsibility and authority levels within the company as well as differentiating good performance to motivate our employees.<sup>6</sup> (HR Coordinator, Holding1)

This Holding1 policy was adopted at AutoCO1 as well, supported by a salary structure where Hay methodology job grading and information from salary surveys and Holding1's networks were incorporated. PharmaCO1 had also adopted its Turkish parent's corporate policy, which was very similar to that of Holding1 except that it stated a more definite level, i.e., paying an overall earnings package at the median level among its competitors, i.e., other large Turkish Holdings and their affiliates as well as multinational competitors. Similar to US parents of WOS, Turkish parents in charge of reward management at these two IJVs closely controlled salary structure and levels. Reporting to the Holding HR and getting their approvals as the central control and coordination unit especially for top level and key positions were usual practices.

### **Performance-related pay**

Performance-related pay (PRP) where performance was linked to salary increases, bonuses, and awards for individual and team-based exceptional success was strongly emphasised and applied to managerial and white-collar employees in all cases. Although PRP was also dependent on company performance, assessing, differentiating and rewarding individual success was a very important policy in all case studies, including in AutoCO1, PharmaCO1 and FMCG4 where the Turkish parent's corporate policies were adopted.

***Annual salary increases***

Part of the annual salary increases was linked to individual PE results, while total increases were derived by considering the company performance, current market salary figures (by using information from salary surveys) and the inflation rate. When high inflation was prevalent, until 2003–2004, like most other companies in the Turkish market, US MNCs used to make two salary adjustments a year: one at around the beginning of the year, which consisted of two separate rates, i.e., inflation adjustment, same rate for all, and merit increase, different rates according to individual PE results. A second inflation adjustment was given at around half-year. In extraordinary years (e.g., the economic crises in 1994 and 2001) when annual inflation and devaluation rates hit record levels, some case companies made three or four increases a year, of which only one had a performance-related part, and the rest were inflationary adjustments.

Extraordinarily high inflation adjustment rates applied to salaries made Turkish subsidiaries stand out as ‘outsiders’ among US MNCs’ subsidiaries and were difficult to explain and negotiate with regional offices. However untraditional and unusual it had been for the US parents, case companies were nevertheless able to localise the salary increase process according to the Turkish conditions, arguing on the basis of compliance with corporate policies of ‘keeping competitiveness in the local labour market to attract and retain talent’. In the case of FMCG2, they had even negotiated and were able to apply higher performance-related increases (‘around 10–12%, instead of the usual 3–5%’) in Turkey because ‘when salaries are increased by 70%, 3–5% performance increase does not mean anything to anyone’ (Interview with HR Manager, FMCG2). This was one of the rare examples for local managers using their power deriving from their expertise of the local conditions to negotiate flexibility in the application of corporate policies.

From 2003, following the gradual fall in the inflation rate in Turkey to ‘comprehensible’ levels, case companies changed their salary increase process to once a year, which, as a couple of interviewees from different companies indicated with relief as in the fairly general comment across the cases as ‘it had taken us out of the ‘outsider’ category and put us together with the ‘ordinary’ subsidiaries!’. This in fact meant returning to the regular application of the corporate policy, where localisation was not needed any more. In the new process, an ‘individual’ single rate, which reflected the combined influence of inflation rate, performance results and market conditions (i.e., to keep up to the market rates for specific positions, additional or no increases) has been applied once a year. In this way, the same rate across-the-board for inflation adjustment at any individual performance rating level has been discontinued. Some employees did not even get an increase to make up for inflation losses, experiencing decreases in their real salary. Across Holding1 companies, for instance, annual salary increase rates ranged between 0–55% in 2003, where employees who had received no increase (0%) for the lowest level PE rating did not get even an inflation adjustment, resulting in a salary cut in real terms. At TexCO, pay rises given in 2003 were between 15–35%, when an 18% inflation adjustment rate was assumed. Those who received 15% increase therefore experienced 3% reduction in real salaries. Managers almost proudly stated that through such annual salary review processes, PE results had gained more significance and ‘meaning’. The new approach was in general claimed to have resulted in a more strictly scrutinised reward policy at the individual employee level within the firms.

***Bonuses and awards***

Bonuses and premiums were managed according to the policies and schemes transferred from US or Turkish (in AutoCO1 and PharmaCO1) parents. General policy, which was



almost identical across the cases, summarised by the regional headquarters HR Director of USFin as 'to reward successful performance, i.e., reaching or exceeding targets, by completely variable, performance-related bonus. In this way, we direct individuals towards the delivery of results by intensifying their efforts to reach the agreed objectives in the PE process' (HR Director, USFin EMEA HQ).

High performance (evaluated higher than 'above average' or 'as expected') was generally rewarded by bonuses. Bonuses were given mostly to higher level (executive) management (although the exact level of management changed from company to company) and sales positions, based on individual and subsidiary performance. At FinCO, for instance, a very competitive bonus system, based entirely on high performance and transferred from USFin, was applied, especially at the higher levels of the management pyramid. Similarly at FMCG1, through the American parent's 'Executive Compensation Programmes' higher-level managers received an annual managerial bonus at the end of the year, linked to their individual PE and the financial performance results of the subsidiary. At HotelCO, where USHotel's global corporate policy was applied, annual premiums were given to top management that were linked to three performance indicators: achieving certain percentage of success rates in the consumer audits ('Mystery Guest' programmes), results of employee opinion surveys, and annual financial performance results of the subsidiary. 'Annual Revenue Premium' ('ARP') for all managerial and white-collar employees, and 'Leadership Share' for top management were the global corporate programmes of USTex applied at TexCO in Turkey. In ARP, bonuses were calculated as a percentage of individual salaries – 7% for level x, 10% for the next level, etc. and 'cannot be even suggested to be changed in different local markets' (HR Manager, TexCO).

At AutoCO1 and PharmaCO1, Holding1's and Holding3's corporate policies of annual bonuses for top-level management depending on company performance were applied, where rates and amounts were decided by Holding management, as in all affiliated companies. One difference between WOS and IJVs where Turkish parents managed reward systems was in the application of company stocks given as bonuses. At FMCG1, FMCG2, FinCO, HotelCO and TexCO ('Phantom Stock' Options, as USTex was a private company) corporate stocks and stock options made a significant part of bonus schemes for top level/executive management. In fact, more widespread use of ESOPs given at all levels of employees was one of the most important policies at FinCO and FMCG1. At USFin there was a recent policy of reducing or altogether eliminating various non-cash benefits, replaced by performance-related bonus schemes at all levels of the organisation, where part of the bonuses would be paid by company stock. Applying various company stock ownership plans down to the lowest level of employees, not only for senior staff, was one of the major corporate policies at USFin at the time of the fieldwork. It was argued by European headquarters HR Director that USFin was very keen to replicate its US-based system across its subsidiaries in the region, in a similar fashion found in the US financial services MNE case by Bloom et al. (2003). Corporate headquarters was argued to believe in the greater power of owning and earning from company shares than that of non-cash benefits in increasing motivation and commitment among all employees. Such an application was argued to also be in line with reducing costs and increasing stockholders' wealth through higher company earnings, which reflected the 'increasing shareholder wealth' approach and the related constraints experienced in the American business system. This corporate policy was in transitional application in the EMEA region and only for one part of the company so far, and had not yet been brought to Turkey.<sup>7</sup>

Another example of flexibility negotiated by local subsidiary management was observed at FMCG1: including all employees in the 'Share Power' scheme, i.e., distributing

USFMCG1 shares as an annual bonus, was local management's decision. As a strict corporate policy of USFMCG1, the 'Share Power' scheme had to be applied globally to all managerial employees above a certain level. With the discretion given to subsidiary management in Turkey, they had started to include those below that level too.

Bonuses and premiums for sales positions were also applied in most cases (except at HotelCO), linked to reaching sales targets and fulfilling quotas. Again, details of these schemes were not obtainable, but in all cases they were reported to be directly linked to SMART job-related objectives of sales and related positions (e.g., branches in FinCO). It was clearly stated that these schemes were applied according to (US or Turkish) corporate policies, within 'hands on' control and approval by regional/corporate or Holding headquarters.

### **Benefits: policies and applications**

It was in benefits schemes where hybridisation in the applications of transferred corporate policies was most highly observed. A similar general corporate policy of 'ensuring competitiveness in the market by providing those benefits commonly given in the local market and retention of employees through a good benefits package' was found across the case companies. In some cases, there were more specific policies, such as being 'at the median' of the market in FMCG2 or 70th percentile from the bottom of the market in TexCO. At HotelCO, the corporate 'guideline' on benefits policy as indicated at the regional headquarters was:

market, cost and ethics driven, i.e., to be a fair and honest employer, providing whatever is necessary and keeps the company in the median among the competition (HR Director, USHotel Regional HQ).

Industry-specific conditions were also taken into consideration if relevant, as in the case of HotelCO where it was argued that the 'Hotel industry is not renowned for providing a generous benefits package' (HR Director, USHotel Regional HQ) or at AutoCO1 where HR/IR Director stated that 'not much is traditional in the car manufacturing industry'.

Even though the content was adapted to the local conditions and administration was left to the subsidiaries, the corporate benefits policy was still very strictly controlled by regional and/or corporate or Holding headquarters. Approval for a new benefit to be included in the package was needed from the regional headquarters, as in the case of TexCO, where 'they would not approve a benefit which is not given by at least half of the companies in the market' (HR Manager, TexCO) or in the case of FinCO where they had recently got approval to start working on providing a pension plan as a new benefit after lengthy and detailed correspondence with the regional Compensation and Benefits Director and the International Benefits Office at corporate headquarters, where all health and pension plans had to be checked and approved before being applied in subsidiaries (HR Director Compensation and Benefits, USFin Regional HQ). While aiming to be competitive in the market, controlling the cost of benefits was an important issue for the case companies, especially for FinCO, TexCO and HotelCO. Both USFin and USTex corporate managements were in the process of reducing the benefits globally as a result of a corporate policy developed in the USA, by consolidating various benefits (especially health insurance and pension plans in the case of USFin) into bonuses and salaries. These changes in the policies had already been applied in the US at the time of the fieldwork; however they had not yet been brought to the EMEA region. It was argued by interviewees that it would be very difficult, almost infeasible, to take back the locally 'traditional' benefits in Turkey (HR Director Compensation & Benefits, USFin Regional HQ, and HR Manager, FinCO).

Looking at the actual application of the general benefits policy, the influence of various constraints in the Turkish business system can be observed. A rather homogeneous set of highly regarded benefits was found across the cases, provided in order to keep a competitive position among competitors in the market, as these benefits are the most important ones expected from a good corporate job by employees targeted by the case companies (Table 3).

Consequently, localisation of policy implementation was observed in the benefits. Free cafeteria services on site or an equivalent benefit for the sales/regional staff (i.e., 'tickets' that can be used to buy food in various places) and transportation services were typically provided, although these were not common benefits in many other countries even in the same region. In Turkey, the majority of employees travel a considerable distance to work and do not have cars. Public transportation is limited, very difficult and time consuming. Therefore case companies adopted this local application, and provided their own bus services, which had the additional benefit of bringing employees to work on time and comfortably, ready to work with increased efficiency. Food services cannot be found around plants, and in a relatively low-income country, free food and beverages is considered an important benefit. These two types of benefits are provided in almost all large Turkish companies, particularly in the public sector, and case companies localised the application of their corporate policies accordingly.

The analysis of the benefits policy and applications revealed no major differences between WOS and IJVs where Turkish joint venture partners (JVPs) managed reward systems. Holding1's benefits policy across its numerous affiliates in various sectors was shaped 'for attracting and retaining talented employees in the long-term' (HR Coordinator, Holding1).<sup>8</sup> Holding3 also adopted a policy that aimed 'to attract talent by being competitive in the market' (HR Manager, Holding3 HR Department). Both of them had a further policy of providing the same set of benefits across all their affiliates. Benefits such as social and cultural facilities and activities, long term service awards, and most importantly, private health insurance and a pension fund for all employees provided at AutoCO1 came from the 'Family of Holding1 Programme'. This reportedly very 'prestigious' Holding scheme provided additional benefits to its members, such as various subsidised or free services (e.g., banking, insurance) and products from Holding1 affiliates. At PharmaCO1, the benefits package was transferred from Holding3, which included most of the items in AutoCO1's set of benefits. Although the benefits policy and applications were transferred from the Turkish JVPs, and there were not any benefits provided through US JVPs (e.g., stock options), they were not significantly different from those of WOS.

The findings can be summarised as that, firstly, reward policies in salary structures, variable pay practices (i.e., performance-related salary increases and bonuses) and benefits in the studied US MNCs were transferred from corporate systems in the WOS cases (i.e., FMCG1, FinCO and HotelCO) and the IJVs where HRM was US parents' responsibility (i.e., FMCG2 and TexCO). Secondly, while the policies were transferred from the Turkish 'corporate' systems, i.e., the Turkish Holdings as the local parents, in the IJVs where Turkish parents managed employment relations (i.e., AutoCO1 and PharmaCO1), systems and rationale were almost identical to those in the WOS cases. Thirdly, in both groups, policies were highly centralised and strictly controlled without much if any flexibility given to subsidiary management or deviation allowed in the application. In some rare instances, limited flexibility was allowed for a localised application of these standardised and centralised policies, resulting in hybridisation in the application, though not in the policy. While the case companies did not experience significant host-country constraints,

Table 3. Benefits provided by the case companies.

Benefit Types	Pharma						
	AutoCO1	FMCG1	FMCG2	CO1	TexCO	FinCO	HotelCO
Free Cafeteria Services	X	X	X	X	X		X
Free Tea	X	X	X	X	X	X	X
Food 'tickets' <sup>1</sup>		X	X	X <sup>2</sup>	X	X	
Private Health Insurance (incl. family)	X <sup>3</sup>	X	X	X <sup>4</sup>	X	X	X <sup>5</sup>
Life Insurance		X <sup>6</sup>	X	X <sup>7</sup>	X	X	X <sup>8</sup>
Private Pension Plans	X <sup>9</sup>		X	X		X	X <sup>10</sup>
Turkish Holding Pension Fund	X	N/A				N/A	N/A
Bus Services	X	X	X	X	X	X <sup>11</sup>	?
Company car <sup>12</sup>	X	X	X	X	X <sup>13</sup>	X	X <sup>14</sup>
Mobile Phone <sup>15</sup>	X	X	X	X	X <sup>16</sup>	X	
Lap top <sup>17</sup>		X	X	X	X	X	
New Year Dinner/Party		X	X	X	X	X	X
Annual Picnic/Dinner		X	X	X	X	X	X
Sports Facilities, Clubs, Social Activities	X	X	X			X	X <sup>18</sup>
Child care					X		
Discounted purchase options of company products		X		X	X	X	X <sup>19</sup>
Lower rate credits from company funds			X			X	
Additional annual paid leaves	X	X	X	X	X	X	
Annual Health Check-ups <sup>20</sup>	X	X	X	X	X	X <sup>21</sup>	
Individual Accident Insurance <sup>22</sup>	X	X	X	X	X	X	
Financial and non-financial Awards for long-term service (e.g. over 5 yrs, 10 yrs, 15 yrs, etc)	X	X	X	X	X	X	X
Salary/pay advances	X	X		X		X	
Gifts or bonus payments for marriage, new child, death in the family, etc.	X		X	X			
Supplementary payments for children, heating, education, religious holy days.	X			X	X		
Purchase options of company cars and other assets		X	X	X			
Annual Social Meetings for Sales Force				X		X	

Notes:

<sup>1</sup> For managerial and white-collar employees<sup>2</sup> For employees in the regions, where there are not company cafeteria services<sup>3</sup> 3 different plans, depending on seniority in the company; A: 3-10 years, b: 10-20 years, C: over 20 years of experience in the company; after 3 years, starting from the 37th month, company pays 1/3 of the premiums, including for family members; new employees (i.e. until 3 years) can buy A policy and pay in 12 instalments him/herself.<sup>4</sup> For salaried (not waged) employees only; after 12 months of service; employee can buy the same plan for family members at the same price paying him/herself in instalments; company does not pay<sup>5</sup> For top-level management only<sup>6</sup> For Managers only<sup>7</sup> For Managers only<sup>8</sup> For top-level management only<sup>9</sup> Holding1 Pension Plan, for all employees in the affiliates of Holding1, through Holding1's wide programme<sup>10</sup> For top-level management only<sup>11</sup> In Istanbul only<sup>12</sup> Depending on the position, e.g. management or sales

## Notes:

<sup>13</sup> Not to white-collar & managerial employees at the Plant

<sup>14</sup> For General Manager only

<sup>15</sup> Depending on the position, e.g. management or sales

<sup>16</sup> Not to white-collar & managerial employees at the Plant

<sup>17</sup> Depending on the position, e.g. management or sales

<sup>18</sup> Employees above Department Head level can use the Hotel's facilities at a discounted rate

<sup>19</sup> All employees can use Hotel's restaurants, cafes, etc at 50% discount rate

<sup>20</sup> For top-level management only

<sup>21</sup> For employees over 50

<sup>22</sup> For frequent travellers

such as formal restrictions imposed by the legislative system or unions, localisation in pay adjustments and benefits types as a result of domestic factors (e.g., high inflation, low income, underdeveloped health and social security systems) was observed. Such 'deviations' nevertheless needed approvals of and closely controlled by regional and corporate headquarters.

### Discussion and implications for future research

This paper investigates the transfer of reward management policies by MNCs from a dominant home-country to their subsidiaries in an 'active' importer host-country, focusing on understanding how the combination of these factors influences the transfer process and outcome. The findings indicate similarity to previous research in terms of American MNCs' propensity for transferring their home-grown American-originated HRM practices to their subsidiaries, thus being 'innovators' in HRM in the host-countries (e.g., Gooderham et al. 1998, 2006) and strictly controlling their reward policies (e.g., Bloom et al. 2003; Björkman and Furu 2000). Therefore strong home-country influences for USA, which has also widely been recognised as a (or usually, the) dominant country, are confirmed in this study.

However findings in terms of host-country influences deviate from those of previous research, which generally provide evidence for avoidance of, resistance towards, or at the very least, translation of standardised corporate-driven HR systems and policies (e.g., Ferner et al. 2004; Kristensen and Zeitlin 2005; Tempel et al. 2006; Gooderham et al. 2006). This study provides strong evidence for a rather straightforward transfer of US corporate policies in reward management to the Turkish subsidiaries, without significant resistance from managers or need for translation. In other words, the transfer is 'successful' according to Kostova's (1999, p. 311) terminology, where:

[T]he success of (practice) transfer is defined as 'the degree of *institutionalization* of the practice at the recipient unit. Institutionalization is the process by which a practice achieves a taken-for-granted status at the recipient unit – a status of "this is how we do things here"'.

This rather unusual finding can be explained by a number of factors at the macro (i.e., host national business system) and micro (firm) levels.

Turkish business system has gone through various changes since the 1950s, where the most significant and continuous changes through trickle-down (i.e., globalisation; change of the economic system to a liberal export orientated one; aspiring to become a member of the EU; increased FDI inflows) and trickle-up (process and product 'innovations' brought by international consulting, auditing, financial and other professional service companies) trajectories have been experienced since the 1980s. The findings which indicate reward management policies of US origin are 'pulled' by the subsidiaries can be explained firstly by the positive influence of the 'permissive' Turkish business environment that presented

minimal legal or cultural constraints on the transfer and implementation of US MNCs' reward management policies. Most of the previous research that argues for translation or hybridisation has been set in institutionally or culturally constraining host business environments (e.g., Gooderham et al. 2006; Tempel et al. 2006; Meardi et al. 2009). In addition to the unrestrictive character of the host business environment, the 'dominance' effects of the home-country are operative. The continued US influence on the Turkish business since the 1950s is widely recognised (e.g., Üsdiken 2004). Moreover, as an 'active' importer of contemporary Western ideas and practices (Üsdiken et al. 1998; Erçek 2006), it is not very surprising to find evidence for local willingness to emulate the 'most recent' and 'modern' management policies from the US. Therefore there is also strong indication for an extensive impact of 'developmentalist-cum-modernizing' discourse (Kipping et al. 2008) on the wholesale adaptation of US-originated reward management policies. This study also confirms the 'Americanisation' of people management in Turkey, similar to the indications by Erçek (2006) who argues for 'internationalisation' (i.e., 'Americanisation') of HRM in most of the largest Turkish companies since the 1990s.

Another significant finding is about the similarity between the reward management policies in the cases with different ownership structures, i.e., WOS versus IJVs. The level of sophistication in the related systems, as well as their standardised application and strict control by the Turkish parents are found to be comparable to those in the WOS cases. All the case companies adopted very similar reward management policies, i.e., high-road strategies and systems, whether they are transferred from their US or Turkish parents. This finding also supports Erçek's (2006, p. 662) results in terms of systematic and strategically coordinated HRM found in Turkish companies that had a foreign capital partner. The most prominent, i.e., largest and oldest, Turkish Holdings (including Holding1, Holding2 and Holding3 in this study) are claimed to be leading the transfer of foreign managerial developments into Turkey, including e.g., total quality management, six-sigma and balanced scorecard (Erçek 2006). Holdings are also found to have established standardised performance management systems during the 1990s and centrally applied and controlled these in their affiliate companies. In line with previous research in the field of management knowledge transfer in Turkey (e.g., Üsdiken and Wasti 2002; Üsdiken 2004) this paper claims that Turkey is an 'active importer' particularly in this field. We additionally provide evidence for the significant role of US MNCs as well as prominent Turkish Holdings as the 'transferors' and 'transferees', respectively.

Where the 'transferors', US MNCs, are renowned for their strong inclination for transferring their home-grown HRM policies globally, 'transferees', Turkish subsidiaries and JVPs in the IJVs, 'pull' these policies, particularly with a 'modernising' discourse, i.e., to learn and adopt the newest and thus the most 'modern' HRM systems and applications. They use their JVPs as learning opportunities: the IJVs with US companies act as a channel for the introduction of foreign, notably US, management practices into the Turkish business system. These 'trickle-up' trajectories operated by large Turkish companies comprise one of the two antecedents of 'pull' effects.

The other is operational at the firm level: Turkish managers of foreign subsidiaries, whether WOS or IJV, usually have an educational background very much in line with American managerial education. The American management education had been transferred to Turkey starting from the 1950s, first ideationally, subsequently structurally though to a lesser extent (Üsdiken 2004). These managers are selected using complicated recruitment and selection (R&S) systems of US MNCs (Sayım 2008) so that they 'fit' into these corporate cultures. They consequently have a positive attitude towards American management systems and applications. Turkish managers both in the Turkish Holdings in



the IJVs and the WOS eagerly support the transfer of US management policies, as they perceive policies developed in the USA to be 'best practices'. They aspire to keep up in their companies with the most current developments in the HRM arena, therefore 'pull' the home-grown corporate policies and adopt them willingly. Turkish managers as such are thus operational in the unproblematic transfer of reward policies from US MNCs.

Findings of this paper therefore provide strong supporting evidence for 'pull' and 'dominance' effects at the firm level: leading local companies of a developing European 'periphery' country adopt the most recent reward management systems with an effort to keep up with the latest developments particularly in the USA, the most dominant country globally and specifically for Turkey. It is hence argued that domestic companies and local managers in continuously changing business systems can act as strong 'pull' factors for the transfer of 'most contemporary' management policies and practices. However it should be emphasised that permissiveness of the business system is *a priori* factor for the 'pull' effects to be effective. Had the Turkish system been highly regulated, willingness of Turkish companies or managers to import American policies could not have been realised.

Only very rarely, some characteristics of the Turkish business system acted as shaping constraints, where the case companies had to adapt the application of their standardised and centralised reward policies to the local conditions. While the application of sophisticated reward policies provides the basis for satisfactory pay, scarcity of highly educated and qualified employees in the Turkish labour market means that case companies have to provide additional, more local (e.g., transportation and cafeteria services, private health insurance, etc) benefits to attract and retain scarce local talent by keeping a competitive position in the labour market. Therefore even in permissive business systems where 'dominance' and 'pull' effects are strong, localisation in the application of home-country policies might be required as a result of other factors such as availability of skills in the host environment.

This paper therefore suggests that the outcome of macro-level (i.e., home- and host-country) influences on the transfer of management policies and practices can diverge from the extant literature when the 'dominant' and 'periphery' countries are studied. More research needs to be done in similar settings in the 'periphery', particularly where host-country is an 'active importer', has a permissive business environment and an instituted and traditional habit of transferring and imitating management knowledge from abroad.

Research also needs to be extended to include companies operating in low-cost/low-skill sectors where (US) MNCs can adopt more 'low-road' approaches in a less developed, low-income 'periphery' country. The cases in this study might be biased against certain types of firms as large and leading US companies in Turkey are selected for investigation with the assumption that such companies are more likely to have established HRM systems (e.g., Gooderham et al. 1996). The assumption and the resulting selection of cases served this purpose, but perhaps led to a rather homogeneous set of cases. The results need to be tested with findings from younger, smaller subsidiaries from low cost / low skill sectors.

A final point concerns the 'implementation' versus 'internalization' of transferred corporate policies (Kostova 1999; Kostova and Roth 2002; Björkman, Barner-Rasmussen, Ehrnrooth and Mäkelä 2009). While the former concerns application of these policies at the subsidiary, 'internalization' is about the positive and committed attitude by all employees for the successful application. This study is based on the data obtained predominantly from managers and it provided strong evidence for 'implementation' at the case companies as well as 'internalization' at the higher levels of management. Data from other employees is not collected, therefore the arguments might reflect biases involved in management's

perspectives. In order to make balanced arguments, future studies need to incorporate workers' perspectives on the implementation of transferred policies.

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### Notes

1. Informal interview with an entry-level manager at FMCG2.
2. It is 729 TL for 2010 (gross figure; net is 577 TL, which is about US\$3858 at the ongoing exchange rate of 1.50 TL = US\$1, April 2010).
3. [www.oecd.org](http://www.oecd.org).
4. Unless otherwise stated, findings and remarks are valid for both WOS and IJV cases.
5. Sales Director and Plant HR Manager at FMCG2 emphasised the same point.
6. Same point is emphasised at Holding1 company website.
7. Interview with Regional Credit Cards Director, USF in EMEA HQ (who was later transferred to Turkey as the General Manager of Commercial Banking).
8. Also emphasised at the Holding1 company website.

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## Appendix

### Interview guide

\* What does s/he see as the major current IR/HR issues in the organisation? In the sector? In Turkey?

#### Personnel and IR

##### Role and responsibility

- Are responsibilities formally laid down? By whom?
- Reporting line?
- Division of labour between personnel & IR function and line managers

##### Relations between personnel function internationally

- Relations with corporate HR:
- Does the international product division have an HR function/role?
- Any contact with HR function in other subsidiaries, in Turkey (if any) –abroad?
- International (HR) committees, working groups:
- how are they managed/ co-ordinated?
- Role?
- Policy making?
- Role of regional headquarters in HR

\* Is there a written manual of personnel policy and procedures?

- Is it adapted from parent-company?
- What are the differences?
- Information collected by the HR. e.g. turnover; costs; absenteeism; breakdown by gender, education etc.

#### Substantive HR issues

\* How far does the parent company set a framework for the Turkish subsidiary's HR?

For each issue:

1. Are there any central policies?
2. Are the Turkish any policies any different from other subsidiaries' policies? In what ways? Why?
3. Do headquarters take an interest?
4. Do they know/ask what policies are?
5. Are new HR policy initiatives discussed with them?
6. Are policies permissive or obligatory?

#### Recruitment & Selection

##### Methods of recruitment

- for low-skilled workforce
- for highly skilled workforce

Extent of external recruitment

- Internal labour market model?

Senior managerial positions

- Recruitment methods?
- How is selection done?
- Role of the headquarters: who controls the appointment of top-level managers?
- Extent of headquarters involvement: approval?
- Use of expatriates in Turkey
- Number of expatriates in Turkey?

American and third-country-nationals (TCNs)?

- Length of service in Turkey, i.e. long-term or short-term?
- Role they play?
- Preference for expatriates or Turkish managers
- if/for Turkish managers
  - a. Selecting those with a more ‘American-like’ mindset (more American vs. more Turkish)? How?
  - b. Acculturating in the USA/regional headquarters?

Equal opportunities & diversity

- Is there an EEO policy?
- A diversity policy?
- Gender (and ethnic?) diversity
- Disability policy?
- Breakdown of % women, disabled, ethnic minority etc
- Extent of headquarters influence

Numbers & redundancy

- breakdown of staff numbers by grade, site
- average length of service
- turnover %
- handling of redundancy
- use of temporary/part-time staff
- any commitment to employment security

**Training & Development**

- For different groups of employees:
  - blue-collar
  - low-skilled
  - high-skilled/technical
- What kind of training?
- American style? What are the principles, priorities?
- Any set of standards, i.e. annual hours/days?
- How are needs assessed?
- headquarters input and monitoring?

Management Development

- Is there a pool of international managers?
- How is talent/high potential (‘hi-po’) identified & developed?
- How are ‘hi-po’s monitored centrally?
- International management training programmes?



## Performance Management & Compensation

### Performance appraisal systems

- How is performance appraisal done?
- By whom?
- How many levels?
- Which direction, i.e. only downward? 360 degree? etc.
- headquarters involvement?

### Compensation

- How is compensation determined for
  - a. blue collar workers?
  - b. managerial employees?
- Is compensation determination any different from the parent company applications?
- In what ways? Why?
- Performance related pay? ESOPs? Profit related?
- Comparison of the level of pay within the sector?
- Any difference from that of domestic firms?
- How is compensation used for the retention of highly skilled & managerial workforce?
- Non-pay benefits: which ones are used? What is the main aim of using them?
- Company cars
- Company housing
- Health insurance
- Sports & recreation facilities?
- Symbolic long service awards?
- Family-friendly benefits?
- Crèche?
- Private pension plans?
- Mobile phones

## Industrial Relations & Collective Bargaining

### Relations with the unions

- Union recognition/non-recognition?
- Which unions?
- History of IR in the company
- If the company used to be unionised, what were the
  - a. motives/reasons for non-recognition?
  - b. the process of de-unionisation?
- Are there any influences of the market/ sector conditions on union de/recognition?
- Is the parent company unionised in America? In other countries?
- Role of the parent-company on IR

### Collective bargaining

- What are the issues of collective bargaining:
  - pay
  - employment security
  - bonuses
  - vacation days
  - shifts
  - teamwork
  - training & development
- Influence/Intervention of headquarters on bargaining process and outcomes

## Employee Communication, Involvement & Participation

### Communication

- top-down: briefings, memos, newsletters
- staff surveys
- other?
- Corporate model of communication? Participation?
- Are the company applications any different from the parent company's? How? Why?
- What mechanisms are used for company communication & participation?

#### Employee Participation & Involvement

- a. how?
- b. in which issues?
- c. unions?
- d. corporate model?

#### Management control

- Long- vs short-term planning horizons
- Consideration of HR issues within the standard planning framework?

#### Corporate- vs division-wide

##### ANNUAL BUDGET

- Process: how is the budget set?
- Who does the business negotiate with?
- What sorts of targets, ie. bottom-line, market-share, growth?
- How is the budget performance monitored?
- Sanctions if not met?
- Are targets linked to remuneration?

#### HR/ER in the budget process

##### Labour costs/ productivity/ no's/training

- International authority levels
- who approves:
- expenditure/investment
- are there standard ROI levels?

#### process of investment approval, e.g. cost comparisons with other sites

- managerial appointments
- product ranges (are they standard?)
- export decisions

#### Information systems

- What HR/IR information is collected at corporate/divisional/regional headquarters?
- Who collects?
- What do they do with it?

#### Work organisation

- Are there international principles (best practice), e.g.
- teamwork, Kaizen e.g. how do project teams work?
- benchmarking on comparable production sites elsewhere
- standard operating procedures eg, for production (standard times etc)
- quality standards and procedures

#### Best Practice

##### Management audit

- Is there a central audit unit (corporate or divisional)?
- What does it do (how, when, where, who)
- Transfer of practices between countries
- Who monitors?
- How transferred?

- Central (US) unit responsible?
- Productivity comparisons between plants:
- Is comparison made of performance in different projects?
- Any areas of international standards
- Standard operating procedures
- Quality standards (e.g. ISO)
- International productivity initiatives

‘Americanness’ of the company

* In what ways does American influence manifest itself?
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